

BALANCE SHEET MANAGEMENT STRATEGIES TO IMPROVE BANK PROFITABILITY

WBA 2021 Lenders & Chief Credit Officers Conference



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Objective 1

Discussing the balance sheet management challenges facing banks today and how forward-thinking banks are addressing each issue.



Objective 2

To help you identify other banks in the country that are like minded and seeking new digital balance sheet management strategies. Connect those that want to work on new innovative solutions.



MATT JOHNNER

PRESIDENT, BANKLABS

- BankLabs is a 'friendly fintech' innovation lab - Construction Loan Automation and Loan Participation Automation to start.
- Matt is a board member of Encore Bank, a fintech forward, fast growing commercially oriented relationship bank.
- Grew up in Lake Placid, attended Texas A&M University - 'Mud Engineer' in Middle East & Africa
- Worked for iconic H. Ross Perot - technology career ever since
- Dallas based with identical twins, a daughter and great wife

OLD WAY VS NEW WAY



- Change is inevitable, growth is optional
- 2-minute fun video comparison



QUESTIONS TO CONSIDER

FOR BALANCE SHEET MANAGEMENT



WHAT STRATEGIES ARE AVAILABLE?

How can banks brace themselves for the changing environment after Covid, how do banks stay balanced? What are the strategies banks are considering to keep their balance sheets stable over the next year?



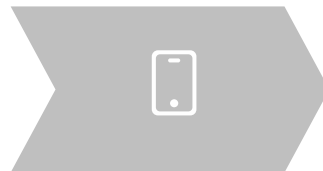
THE CHANGING LOAN DEMAND

In December, the Federal Reserve is slowing down bond purchasing. If rates are going up next year, are banks considering selling off fixed rate loans now? How is lowering loan demand effecting balance sheets?



HOW LOAN SERVICE FEES CAN HELP

If you could charge 7 basis points as a service fee on your loans, would that have a positive impact on your balance sheet?

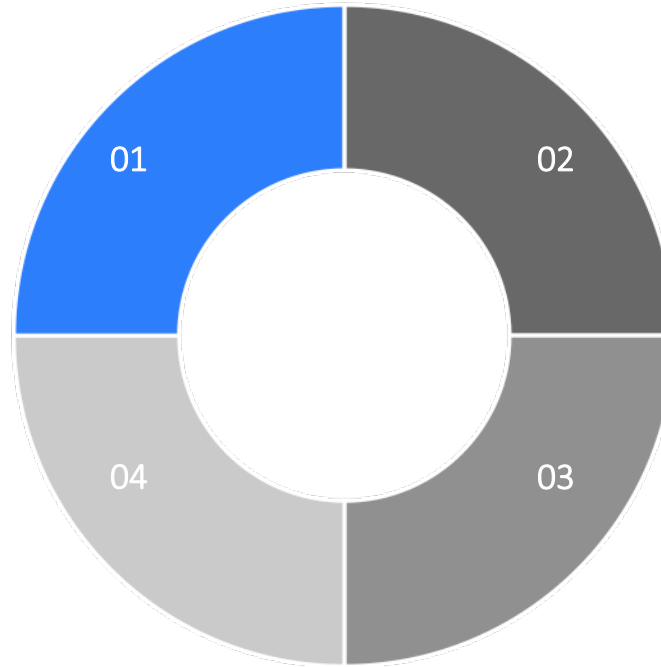


TOOLS

What tools are bankers looking for to address these needs?

CHALLENGES TODAY

#1 - COMPRESSED NET INTEREST MARGIN (NIM)



- COMPRESSED NIM
- LOW INTEREST RATE
- NEED FOR NON-INTEREST FEE INCOME
- LACK OF QUALITY LOANS



COMPRESSED NIM



LOW INTEREST RATE



NEED FOR NON-INTEREST FEE INCOME



LACK OF QUALITY LOANS

HISTORIC SURGE IN DEPOSITS



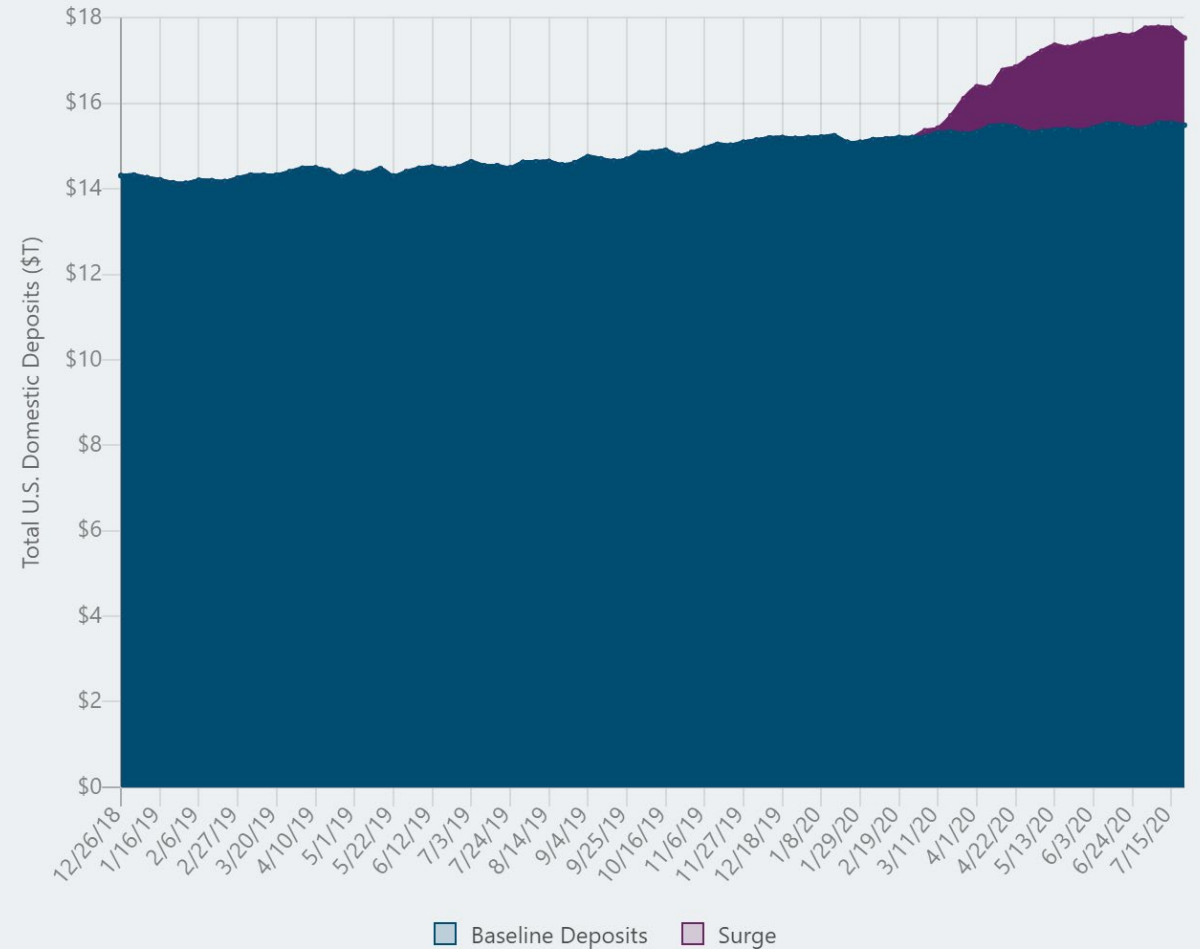
Excess liquidity provided by the American Rescue Plan has lowered banks:

- Loan to deposit ratios
- Loan demand
- Interest rates
- Net Interest Margins

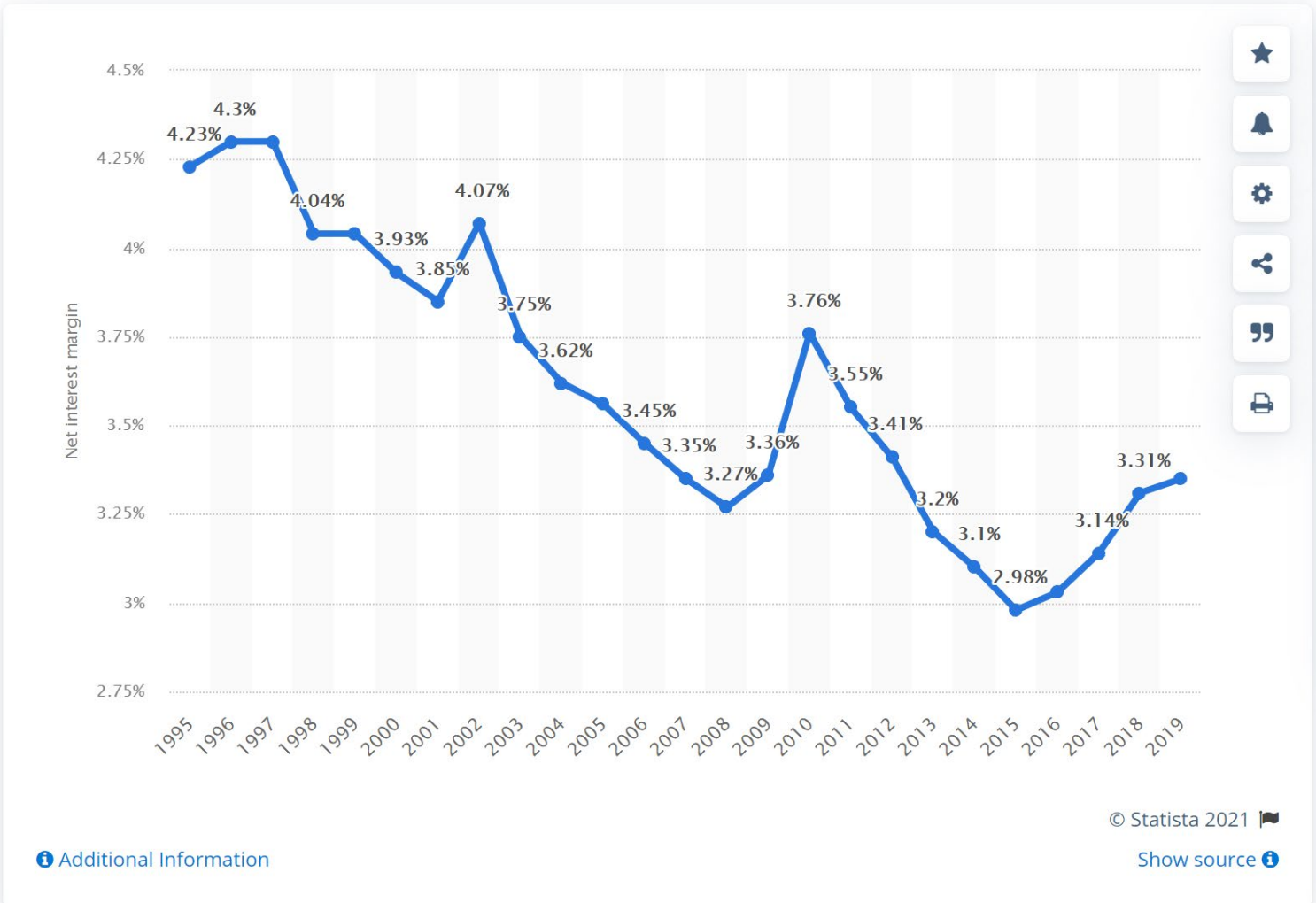
How are Banks going to remain profitable?

Figure 2: U.S. Deposit Base

TOTAL U.S. DOMESTIC DEPOSITS

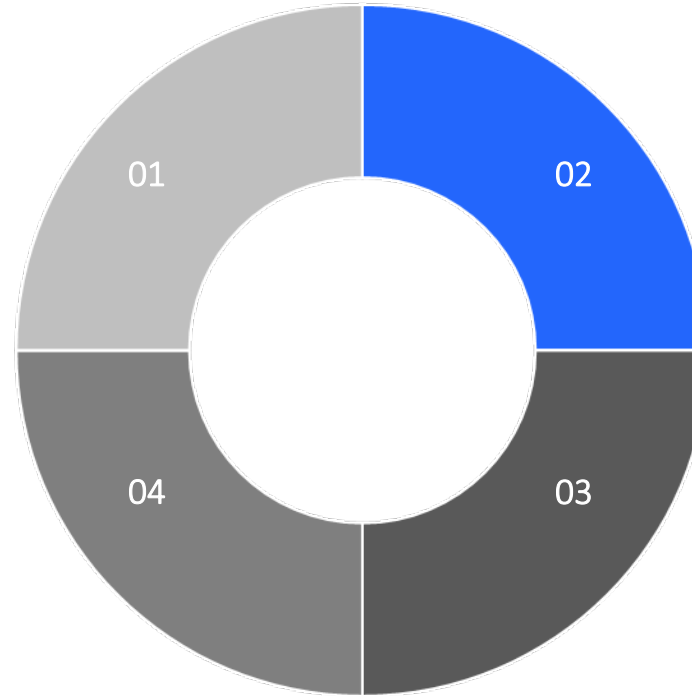


AVERAGE NET INTEREST MARGIN OF BANKS IN UNITED STATES FROM 1996 to 2019



CHALLENGES TODAY

#2 - LOW INTEREST RATE



- COMPRESSED NIM
- LOW INTEREST RATE
- NEED FOR NON-INTEREST FEE INCOME
- LACK OF QUALITY LOANS



COMPRESSED NIM



LOW INTEREST RATE



NEED FOR NON-INTEREST FEE INCOME

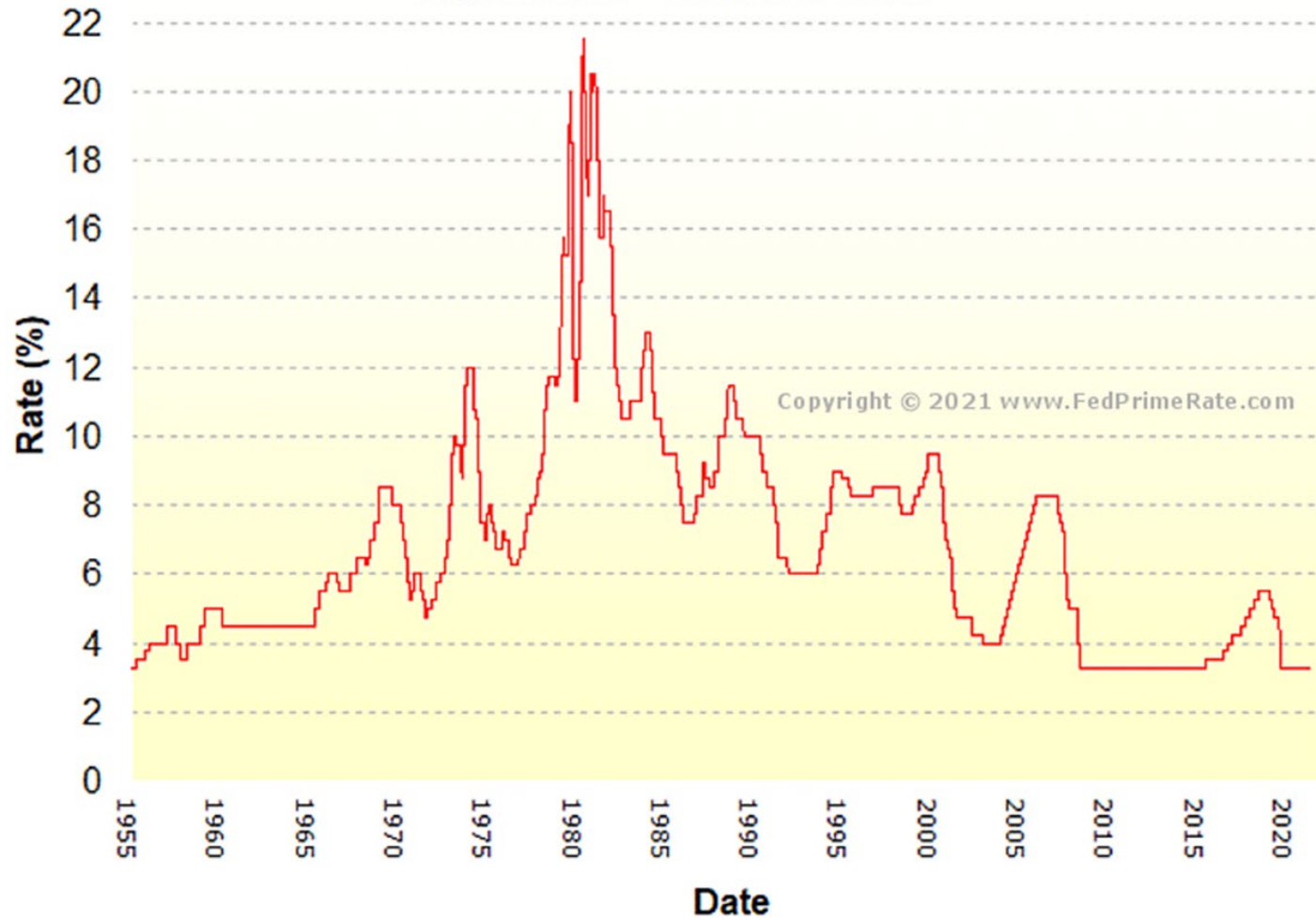


LACK OF QUALITY LOANS

PRIME RATE HISTORICALLY

United States Prime Rate

August 4, 1955 - December 31, 2021

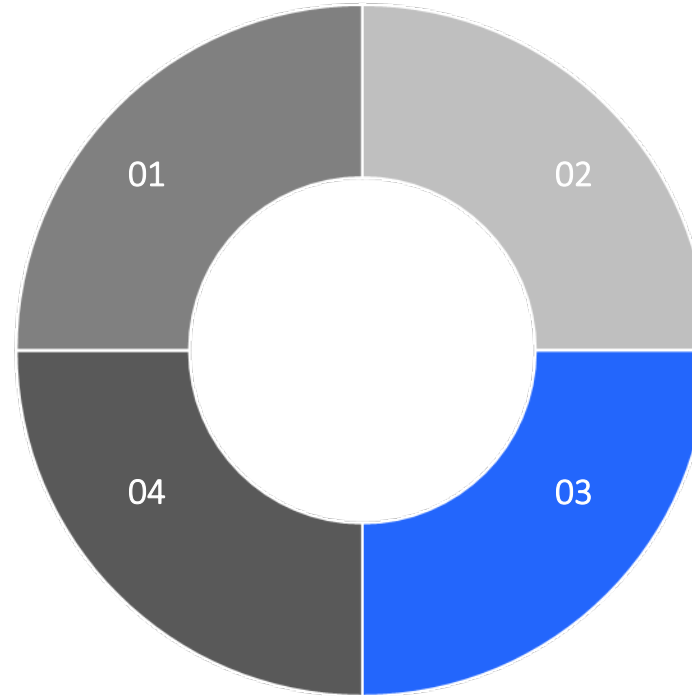


PRIME RATE HISTORICALLY

Effective Date	Rate
3/16/2020	3.25%
3/4/2020	4.25%
10/31/2019	4.75%
9/19/2019	5.00%
8/1/2019	5.25%
12/20/2018	5.5%
9/27/2018	5.25%
6/14/2018	5.00%
3/22/2018	4.75%
12/14/2017	4.50%
6/15/2017	4.25%

CHALLENGES TODAY

#3 - NEED FOR NON-INTEREST FEE INCOME



- COMPRESSED NIM
- LOW INTEREST RATE
- NEED FOR NON-INTEREST FEE INCOME
- LACK OF QUALITY LOANS



COMPRESSED NIM



LOW INTEREST RATE



NEED FOR NON-INTEREST FEE INCOME



LACK OF QUALITY LOANS

AN OPPORTUNITY FOR TWO BANKS

EXISTING CREDIT – NEVER PARTICIPATED



BANK A



NEEDS TO REDUCE CONCENTRATION RISK IN CRE LOANS

Could charge 25 basis point servicing fee to downstream buying banks that need quality loans.



DECIDES TO ORIGINATE A LOAN TO PARTICIPATING BANKS

Bank A publishes their 10-year CRE loan of \$10M booked at 5.25% fixed rate.



PUBLISHES LOAN ON DIGITAL PLATFORM

Publishes a \$9M CRE loan at 5.0% for sale, looking for participation banks. 1 annual payment of \$1M principle plus interest.

BANK B



LOOKING FOR QUALITY RATES

Looking for ways to easily and quickly compensate for the NIM compression and lowering income their bank is experiencing.



NEEDS TO DIVERSIFY

Bank B has a high concentration of C&I loans and needs to diversify with other types of loans.

A WIN-WIN



ORIGINATING BANK (BANK A)

PARTICIPATING BANK (BANK B)

REDUCE LOAN CONCENTRATION

Bank A reduces their loan concentration in CRE loans by \$9M.



DIVERSIFIES

Bank B gets to easily increase their CRE loans.



 Both banks reduce the participation cycle time from 30-60 days to 2 weeks

GAIN PROFITABILITY

Bank A still earns 5.25% on \$1M in the first year for \$52,500 in interest and 25 basis points on the \$9M they sold for servicing fee of \$22,500 for a total income of \$75,000, an effective rate of 7.5% for the first year.



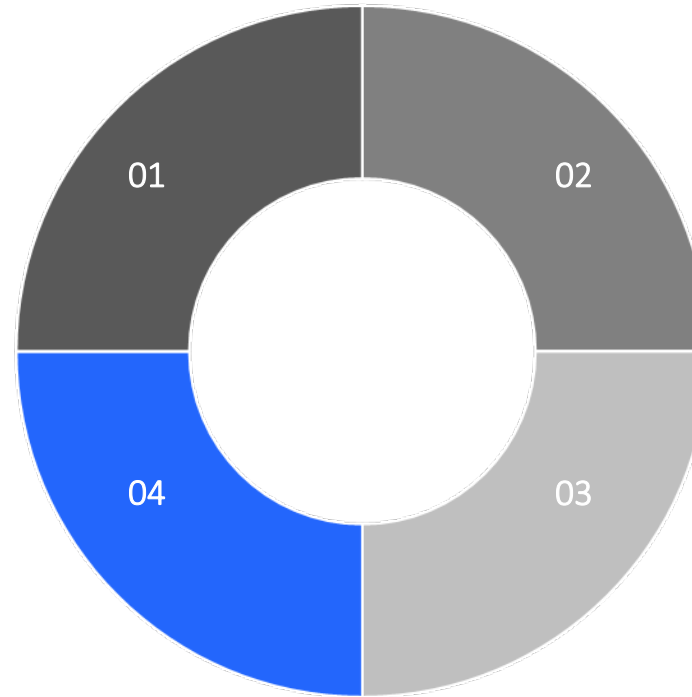
STILL EARN INTEREST

Bank B still earns \$450,000 in interest the first year and subsequent interest in years to follow.



CHALLENGES TODAY

#4 - LACK OF QUALITY LOANS



- COMPRESSED NIM
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- LACK OF QUALITY LOANS



COMPRESSED NIM



LOW INTEREST RATE



NEED FOR NON-INTEREST FEE INCOME



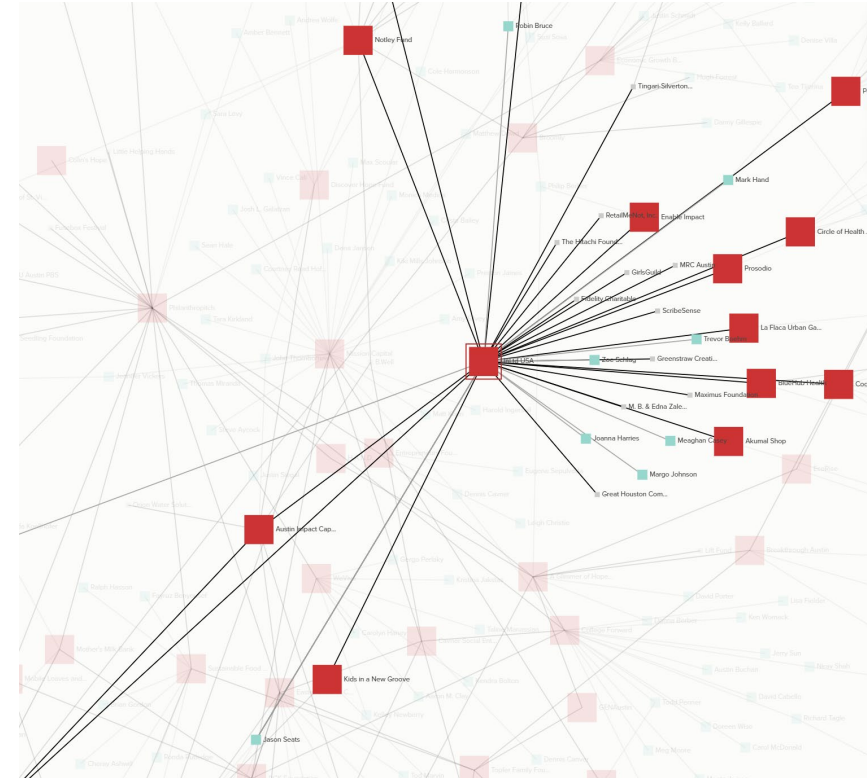
LACK OF QUALITY LOANS

CONNECT TO QUALITY BANKS AROUND THE COUNTRY



Is your bank limiting loan growth by only having in-market trading partners?

- Leverage digital marketplaces
- Increase visibility to quality loans and sort by loan characteristics
- Reduce concentration risk
- Democratize participation opportunities to banks of all sizes



THANK YOU



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